

Handout

Professional financial advice

Note: Before working with this handout, please read „Professional financial advice”.

Task 1

Rada wants to take out a loan to buy an apartment.

a) List all the documents she should bring when meeting with her financial adviser.

Necessary documents:

- payslip
- personal documents as proof of citizenship, right of residence and domestic residence (confirmation of registration (Meldezettel), official ID with photo, other contact details)
- documents concerning any outstanding loans, life insurance contracts, investment products
- optional: employment contract/social security statement to prove that she has a job

b) Give examples of a few places where you should keep such documents.

Flash drives or other data storage devices, cloud applications with adequate data protection, ring binders at home

Task 2

An acquaintance talks enthusiastically about getting financial advice from a friend who is a financial expert. You make an appointment with this financial expert. When you meet for a first consultation, they do not ask you for any documents. Instead, they start talking about shares absolutely everyone should own.

Explain what this behavior tells you.

This is not a professional financial adviser, but a broker who just wants to sell shares. Otherwise they would ask for personal documents, we would be discussing my financial situation and setting goals; only then would a professional financial adviser suggest some suitable products. I should end the conversation

Task 3

Choose the suitable financial adviser for each situation and explain your answer.

| # | Situation | Financial advice provided by | | | | Explanation |
|---|---|------------------------------|-------------------|-----------------------|-----------------|--|
| | | Bank | Insurance company | Investment consultant | Investment firm | |
| 1 | Milos wants advice on as many financial products as possible. | | | X | | Investment consultants have the biggest selection of products because they can work for many different product providers. |
| 2 | Sonja runs her own company and has little time. She wants to authorize an expert to buy and sell securities on her behalf. | | | | X | Only investment firms are allowed to independently buy and sell securities on behalf of their customers, subject to prior authorization. |
| 3 | Hadija wants a financial product that allows her to save and at the same time provides life insurance. She is looking for a company that specializes in products like that to advise her. | | X | | | In this case, it makes sense to take out an endowment policy. Insurance companies specialize in advice on such products. |

| | | | | | | |
|---|---|---|--|-----|---|--|
| 4 | Johann wants one provider to advise him on, and offer, a range of different financial products. | X | | | | Only banks provide a wide range of financial products while also offering consulting services. |
| 5 | Mona is looking for a company that specializes in derivatives. | | | (X) | X | Investment firms specialize in derivatives. Investment consultants also have expertise in this area and know what's on offer. |
| 6 | Radomir wants to take out a loan. He would like advice on what different lenders have to offer. | | | X | | Only investment consultants that do not have ties to one specific provider can give advice about, and sell, the products of different providers. |
| 7 | Isabella wants to close an old savings book account and reinvest the money she has saved. She wants to deal with both things during one and the same appointment. | X | | | | To close a savings book account, you need to make an appointment at the bank where you hold this account. During this appointment, you can also get advice about investment options. |

Task 4

- a) List the advantages and disadvantages of a commission-based consultation instead of a fee-based consultation from a consumer's perspective.

Advantages: no consultation fees, direct link to product provider/s

Disadvantages: Financial adviser is tied to certain product providers and, therefore, prefer their products. They also have a certain pressure to sell because they only make money from commissions.

- b) List three differences between professional financial advisers and influencers that you need to be aware of when looking at financial information on social media.
1. Professional financial advisers are subject to regulations and legal standards concerning company licensing and consultations, while influencers are not subject to such laws.
 2. Professional financial advisers specialize in individual consultations, while influencers often address large groups.
 3. Professional financial advisers have to show you proof that they have the qualification to advise you. Influencers do not have to do that.
 4. Professional financial advisers have to document their consultations. Influencers do not offer professional consultations. They share their opinions and views with large groups of people, and that is why they do not have to document anything.
- c) Explain what documents and information a financial adviser is obliged to give a customer when selling an investment product.
1. Consultation protocol with customer's investment profile (contains information the customer has received concerning product type, investment goals, risks, contract periods and terms as well as the stock exchange)
 2. Cost statement including total costs for each product
 3. Product contract including the terms and conditions of the provider

Questions for reflection:

For which of my life goals do I need to invest/save or borrow money?

Before getting financial advice: do I have a good overview of my financial situation?

How much money can I invest/save each month? / How much money do I need to borrow?

Do I want advice on specific financial products?

Does my financial adviser comply with their legal obligations?

Do I feel like I am in good hands during the consultation?

Does it seem like my adviser is under pressure to sell during the consultation?

Have I also contacted other financial advisers and asked for their opinion?

Note: Professional advisers will make sure to carefully look into your financial situation, set realistic goals with you and explain to you in detail your financing and investment options. Only then will they suggest a suitable financial product without any obligation to buy.